

STATE INVESTMENT COMMISSION  
MINUTES  
March 3, 2000

The State Investment Commission ("SIC") meeting was called to order by Jonathan Miller, State Treasurer on March 3, 2000 at 2:00 p.m. in Room 264 of the Capitol Annex. Members present were John P. McCarty, Secretary, Finance and Administration Cabinet; Orson Oliver, Bank of Louisville; and Jonathan Miller, State Treasurer.

Treasurer Miller confirmed that quorum was present and the press was notified of the meeting. On a motion by Mr. Oliver with a second by Secretary McCarty, the minutes for the December 8, 1999 meeting were **APPROVED**.

Gordon L. Mullis, Executive Director, Office of Financial Management ("OFM"), provided a brief economic update referring the members to the Kentucky Economic Indicators, Attachment A, in the board material. Mr. Mullis informed the Commission that the February revenue numbers continue to reflect growth at approximately 4.5 percent. The state experienced a downturn in January, however, February numbers indicate the numbers were up. Sales and Use Tax and Individual Income Tax were both up. From a national perspective, the fourth quarter showed extremely strong gross domestic product at approximately 7 percent growth. Productivity is estimated a 6 percent. The Fed continues to have concern about expansion of the economy and most analysts are expecting changes in interest rates over the course of the spring and summer months. Chairman Greenspan continues to say he has little concern regarding inflation, however, the price of oil as well as the ability to meet the demand of the consuming public may cause inflation to rise.

Mr. Mullis continued with an update on the Commonwealth's securities lending program. Mr. Mullis informed the Commission that Resolution 99-03, adopted at the December meeting, authorized staff to issue a Request for Proposals ("RFP") for Securities Lending, review the RFP and to choose a provider effective February 1, 2000. Six responses to the RFP were received and the engagement was awarded to Deutsche Bank who agreed to pay the Commonwealth 10 basis points on a principal basis. This exceeds the 7.5 basis points that were paid previously by Goldman Sachs.

Secretary McCarty asked how the increase in basis points would affect the income received. Mr. Price indicated it would be an additional \$600,000 in income for the Commonwealth.

Mr. Dwight Price, portfolio manager, Office of Financial Management, presented an update to the Commission. Mr. Price informed the Commission that OFM has converted to a new analytical package from Bloomberg and the reports in Attachment A are a result this package. The first page of the new reports shows pool value, duration and yield. Future reports will show benchmarks and will compare yield, modified duration and convexity. Convexity shows how the portfolio changes as market prices change. The second page of each report shows by market sector and security the value of each security and the percent of the Commonwealth's portfolio it represents.

Treasurer Miller asked Mr. Price how the Commonwealth's benchmarks were structured. Mr. Price explained the State Investment Commission sets the benchmarks. Charts in the monthly reports distributed to the Commission members indicate what the benchmarks consist of. Because of the limits on the types of securities the Commonwealth may purchase, there are no benchmarks that match our portfolios. Each pool has a separate benchmark based on the Merrill Lynch indices.

Mr. Price continued by informing the Commission that the new analytical package has the capability of producing a value at risk report. Value at risk is an attempt to quantify how much of your principal is at risk within the statistical changes in the market. Mr. Price pointed out, however, that risk to the Commonwealth is minimal because the Commonwealth has no leverage and the relative risk of loss only comes into play when a security is sold.

Mr. Orson Oliver, Mid-America Bank of Louisville, asked if the Bloomberg program has the capability to report opportunity risk. Mr. Price indicated he would work with the program to see if that possibility existed.

Mr. Mullis informed the Commission that Tom Nunnelley would be taking a position with the City of Louisville. He also informed the Commission that members would be contacted regarding the next quarterly meeting.

With no further business before the Commission, the meeting was adjourned at 2:35 p.m.

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Gordon L. Mullis, Secretary  
State Investment Commission